

June 25, 2004

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N. W.
Washington, D. C. 20551

Re.: Docket No. R-1197

Dear Ms. Johnson:

This letter is in response to your press release dated May 28, 2004 concerning proposed amendments to Regulation DD, 12 CFR 230, Truth In Savings Act.

Southside Bank was chartered in 1960 and is a state non-member bank. Southside Bank is owned 100% by a one-bank holding company, Southside Bancshares, Inc. At year-end total assets were over \$1.5 billion. Southside Bank is predominately a consumer and small business oriented bank, serving all of east Texas. The bank has a brokerage subsidiary relationship as well as twelve grocery store branches, three motor bank locations, six "stand-alone" branches and thirty-one ATMs.

I have been in banking for over 30 years mainly in audit and compliance. I have been with Southside Bancshares for over 9 years.

Major items of concern, in the proposed amendments, that we feel need to be addressed include the following:

1. Under the proposed revisions institutions that provide periodic statements would be required to include the total amount of fees imposed for overdrafts and the total amount of fees for returned items for the statement period and for the calendar year to date.

Currently Southside Bank provides the customer a notice each time their account is overdrawn. Included in the notice is information regarding any returned checks and any associated fees. At each monthly statement cycle, the customer receives a listing of transactions for the period, including any associated overdrawn and return check charges. As is already required by law, we provide a listing of our charges, including NSF and Overdraft. We disclose these fee amounts to new and current customers. We expect the customer to take responsibility for how they handle their banking relationship with us and the merchants they deal with to obtain products and services. We cannot make decisions for how they spend or use their money.

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1. (Continued)

Because we provide a notice when the overdraft occurs and then detail the transaction in their monthly account statement we see no need to provide the information for a third time in associated totals. This will only create customer confusion, unnecessary concerns, and questions regarding the need to post another dollar amount to their check register. In addition, the time and cost to make the program changes will be in the estimated range of from \$50,000 to \$125,000 and well over six to nine months of manpower.

2. Under the proposed revisions institutions would be required to specify in the account-opening disclosures provided under the Truth In Savings Act whether overdraft protection fees may be imposed in connection with checks, automated teller machine (ATM) withdrawals, or other electronic fund transfers.

It appears from the proposed revision that there might be an impression that an individual cannot overdraw their account by writing a check, making an ATM withdrawal or processing an electronic fund transfer. Overdraft protection is exactly that, if you overdraw your account a fee may be charged. Individuals who have a checking account understand this concept; for a great number of people, this is nothing new.

If you are trying to imply that overdraft protection would only apply to certain overdrafts that are a result of only specific transactions or methods of payment, you are missing the point on what the product is called; "overdraft protection". People want help when they overdraw their account, no matter what causes the overdraft. A description of what items apply to create an overdrawn condition in an account serves no purpose. In addition, most banks identify what items contributed to the overdrawn condition when they send the initial notice concerning the overdraft.

To imply that individuals don't know when they are overdrawn is a misconception; I know of no bank that does not notify a customer that their account is overdrawn and the amount of any associated fee. The real problem is the fact that several individuals do not keep track of their account balance and do not reconcile their account statement. You cannot legislate this problem.

If overdraft protection arrangements were not provided to customers, not only would they pay the bank associated fee, they would have to deal with the merchant charge which is, in most cases, much higher than the bank charge and, they might have to contend with the embarrassment caused by a returned item. Believe me, customers wanted this type of service, convenience, protection, and cost savings long before we decided to offer the product.

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I would not be surprised if customers started overdrawing their checking accounts when the first bank started offering checking accounts. To imply that overdraft protection encourages writing more insufficient checks is beyond our understanding of why the product was originally offered. People are going to write checks for more than the amount they have in their checkbooks and have since the beginning of the checking account. Overdraft protection can not be used as an excuse for what has been a habit for many customers for many years. Do not use the "shift the blame" idea for a good product.

We are opposed to the proposed amendments to Regulation DD. We see no justification for the changes and would hope the regulators would work hard at trying to eliminate undue regulatory burden and cost in this and many other regulations.

We appreciate the opportunity to comment on the proposed amendments and anticipate there will be positive changes to the proposal.

Sincerely,

Richard W. Siegmund, CBA, CTA, CRCM, CFSA
Vice President, Compliance